

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2011-7-G

August 31, 2011

IN RE:

Application of Piedmont Natural Gas)
Company, Incorporated to Have the Terms)
of the Natural Gas Rate Stabilization Act)
Apply to the Company's Rates and Charges)
for Gas Distribution Services)

SETTLEMENT AGREEMENT

This Settlement Agreement is made by and among the Office of Regulatory Staff of South Carolina ("ORS") and Piedmont Natural Gas Company, Inc. ("PNG") (collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, by Public Service Commission of South Carolina ("Commission") Order Nos. 2005-491, dated September 28, 2005, and 2005-567, dated October 13, 2005, the Commission established a baseline for PNG under the Natural Gas Rate Stabilization Act (the "Act") and approved certain accounting adjustments proposed by ORS and PNG;

WHEREAS, pursuant to S.C. Code Ann. § 58-5-455 (Supp. 2010), PNG filed its Quarterly Monitoring Report and Proposed Rate Changes with the Commission on June 15, 2011 for the review period consisting of April 1, 2010 through March 31, 2011 ("Review Period");

WHEREAS, the Report of ORS' examination of PNG's Monitoring Report for the Twelve-Month Period Ending March 31, 2011, pursuant to the Act, was filed with the Commission on August 31, 2011;

WHEREAS, the Parties to this Settlement Agreement are the only parties of record in the above-captioned docket;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of this proceeding would be in their best interest; and

WHEREAS, following those discussions the Parties have each determined that their interests, and ORS has determined that the public interest, would be best served by settling the above-captioned case under the terms and conditions set forth below:

1. PNG will implement rates for the twelve-month period beginning with the first billing cycle of November 2011 calculated on the basis of an 11.3% Return On Equity ("ROE") instead of the 12.6% ROE approved by Commission Orders No. 2002-761, 2005-491, and 2005-567.

2. The Parties agree that the following are the only attachments to this Settlement Agreement: Schedule 1 (Net Operating Income and Rate of Return); Schedule 2 (Explanations of Accounting and Pro Forma Adjustments); and Schedule 3 (Weighted Cost of Capital).

3. The Parties agree that PNG will adopt the accounting adjustments of ORS as set forth in Schedule 2 as attached to this Settlement Agreement which include adjustments based upon PNG's most recent 2009 depreciation study.

4. The Parties agree that, based upon the accounting adjustments proposed by ORS and adopted by PNG, and the agreement of PNG to implement rates based on an 11.3% ROE, South Carolina ratepayers will realize a decrease in current margin rates totaling \$3,145,000. This equates to a reduction of \$4,881,739 for South Carolina ratepayers when compared to rates calculated on PNG's authorized 12.6% ROE.

5. The Parties agree to an increase in demand cost of \$40,737, due to a demand cost under-recovery.

6. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

7. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair their arguments or positions in future proceedings. Should the Commission decline to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty.

8. This Settlement Agreement shall be interpreted according to South Carolina law.

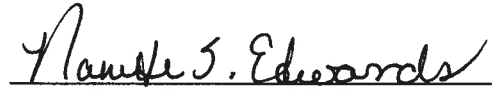
9. Each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

August 31, 2011

[SIGNATURE PAGES FOLLOW]

WE AGREE:

Representing and binding the Office of Regulatory Staff

A handwritten signature in cursive script, reading "Nanette S. Edwards", is written over a horizontal line.

Nanette S. Edwards, Esquire

Office of Regulatory Staff

1401 Main Street, Suite 900

Columbia, SC 29201

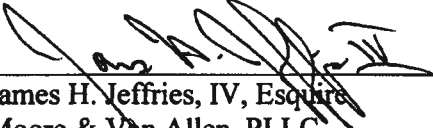
Phone: (803) 737-0575

Fax: (803) 737-0895

Email: nsedwar@regstaff.sc.gov

WE AGREE:

Representing and binding Piedmont Natural Gas Company, Inc.



James H. Jeffries, IV, Esquire
Moore & Van Allen, PLLC
100 North Tryon Street, Ste. 4700
Charlotte, NC 28202
Phone: 704-331-1079
Fax: 704-339-5879
Email: jimjeffries@mvalaw.com

Settlement Schedule 1

Piedmont Natural Gas Company
South Carolina Operations
Net Operating Income and Rate of Return
For the Twelve Months Ended March 31, 2011
Docket No. 2011-7-G

| | (1) Per Regulatory Books | (2) ORS Accounting and Pro Forma Adjustments | (3) ORS As Adjusted | (4) Adjustments for Proposed Margin Decrease | (5) Adjustment for Demand Cost Under-Recovery | (6) Total After Proposed Rates |
|---|-----------------------------------|--|---------------------------|--|--|---|
| Operating Revenues | | | | | | |
| 1 Sale and Transportation of Gas | \$ 156,169,231 | \$ (6,162,227) | (1) \$ 150,007,004 | \$ (3,145,000) | (10) \$ 40,737 | (16) \$ 146,902,741 |
| 2 Other Operating Revenues | 979,298 | 0 | 979,298 | | | 979,298 |
| 3 Total Operating Revenues | 157,148,529 | (6,162,227) | 150,986,302 | (3,145,000) | 40,737 | 147,882,039 |
| Operating Expenses | | | | | | |
| 4 Cost of Gas | 88,016,349 | (9,350,559) | (2) 78,665,790 | | 40,419 | (17) 78,706,209 |
| 5 Operations and Maintenance | 26,546,358 | (287,730) | (3) 26,258,628 | (9,067) | 117 | (18) 26,249,678 |
| 6 Depreciation | 12,063,484 | (1,162,453) | (4) 10,901,031 | | | 10,901,031 |
| 7 General Taxes | 6,299,978 | (37,493) | (5) 6,262,485 | (15,480) | 201 | (19) 6,247,206 |
| 8 State Income Taxes | 1,218,795 | 4,134 | (6) 1,222,929 | (156,022) | | 1,066,907 |
| 9 Federal Income Taxes | 5,783,404 | 2,326,275 | (7) 8,109,679 | (1,037,551) | (14) | 7,072,128 |
| 10 Amortization of Investment Tax Credits | (44,706) | | (44,706) | | | (44,706) |
| 11 Total Operating Expenses | 139,883,662 | (8,507,826) | 131,375,836 | (1,218,120) | 40,737 | 130,198,453 |
| 12 Net Operating Income | 17,264,867 | 2,345,599 | 19,610,466 | (1,926,880) | 0 | 17,683,586 |
| 13 Interest on Customers' Deposits | (145,207) | 0 | (145,207) | | | (145,207) |
| 14 Amortization of Debt Redemption Premium | 0 | 0 | 0 | | | 0 |
| 15 Allowance for Funds Used During Construction | 129,912 | | 129,912 | | | 129,912 |
| 16 Customer Growth | 15,528 | 2,318 | 17,846 | (1,753) | (15) | 16,093 |
| 17 Net Operating Income for Return | \$ 17,265,100 | \$ 2,347,917 | \$ 19,613,017 | \$ (1,928,633) | \$ 0 | \$ 17,684,384 |
| Rate Base: | | | | | | |
| 18 Plant in Service | \$ 396,347,137 | \$ 0 | \$ 396,347,137 | | | \$ 396,347,137 |
| 19 Accumulated Depreciation | (168,079,845) | | (168,079,845) | | | (168,079,845) |
| 20 Net Plant in Service | 228,267,292 | 0 | 228,267,292 | | | 228,267,292 |
| Add: | | | | | | |
| 21 Construction Work in Progress | 3,995,469 | | 3,995,469 | | | 3,995,469 |
| 22 Materials and Supplies | 14,736,592 | | 14,736,592 | | | 14,736,592 |
| 23 Cash Working Capital | 740,448 | (66,947) | (9) 673,501 | | | 673,501 |
| Deduct: | | | | | | |
| 24 Customers' Advances | 0 | | 0 | | | 0 |
| 25 Customers' Deposits | 4,455,698 | | 4,455,698 | | | 4,455,698 |
| 26 Accumulated Deferred Income Taxes | 50,783,136 | | 50,783,136 | | | 50,783,136 |
| 27 Unclaimed Funds | 99,175 | | 99,175 | | | 99,175 |
| 28 Total Rate Base: | \$ 192,401,792 | \$ (66,947) | \$ 192,334,845 | | | \$ 192,334,845 |
| 29 Rate of Return | 8.97% | | 10.20% | | | 9.19% |
| 30 Return on Equity | 10.94% | | 12.94% | | | 11.30% |

Settlement Schedule 2

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2011
Docket No. 2011-7-G

| Line No. | Description | Per Piedmont | Per ORS |
|-------------|--|-----------------------|-----------------------|
| 1 | <u>Operating Revenues - Sale and Transportation of Gas</u> | | |
| | To decrease revenues on a going-level basis. | \$ (6,162,227) | \$ (6,162,227) |
| | <u>Total Operating Revenues - Sale and Transportation of Gas</u> | \$ (6,162,227) | \$ (6,162,227) |
| 2 | <u>Cost of Gas</u> | | |
| | To decrease cost of gas on a going-level basis. | \$ (9,350,559) | \$ (9,350,559) |
| | <u>Total Cost of Gas</u> | \$ (9,350,559) | \$ (9,350,559) |
| 3 | <u>Operations and Maintenance Expenses</u> | | |
| a. | To annualize the payroll expense as of March 31, 2011, and to disallow officer salary increases in conformance with PSC Order No. 2002-761, dated November 1, 2002. | \$ (444,828) | \$ (444,828) |
| b. | To decrease expenses for the salary and payroll investment plan. The plan allows participants to defer a portion of their base salary and the Company matches a portion of the participant's contribution. | (28,169) | (28,169) |
| c. | To adjust pension costs included in the filing. | 42,817 | 42,817 |
| d. | To adjust uncollectible gas cost expense utilizing the method approved in Docket No. 2006-4-G, Order No. 2006-527, dated October 11, 2006. This removes uncollectible gas cost expense from base rates and records the amount in account #253.04. The applicable uncollectible gas cost rate is .28829%. | (17,235) | (17,235) |
| e. | To decrease expenses for allocations to non-utility activities. | (22,007) | (22,007) |
| f. | To increase expenses for the Long-Term Incentive Plan. | 56,823 | 56,823 |
| g. | To decrease expenses for the Short-Term Incentive Plan. | (133,980) | (133,980) |
| h. | To decrease expenses for the MVP Incentive Plan. | (13,341) | (13,341) |
| i. | To increase expenses for group insurance. | 49,427 | 49,427 |
| j. | To increase expenses for the Piedmont Town Center lease. | 3,210 | 3,210 |
| k. | To increase expenses for Piedmont Town Center CAM expense. | 3,137 | 3,137 |
| l. | To increase expenses for amortization of early retirement incentive. | 151,229 | 151,229 |

Settlement Schedule 2

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2011
Docket No. 2011-7-G

| <u>Line No.</u> | <u>Description</u> | <u>Per Piedmont</u> | <u>Per ORS</u> |
|-----------------|---|----------------------------|------------------------------|
| m. | To increase expenses for the South Carolina assessment fee. | (5,935) | 1,327 |
| n. | To decrease expenses for items that are nonallowable for ratemaking purposes. | (150,452) | (298,027) |
| o. | To increase expenses for Gas Technology Institute expenses. | 150,000 | 150,000 |
| p. | To increase expenses for SC Environmental Expense. | 466,223 | 211,887 |
| | <u>Total Operations and Maintenance Expense</u> | <u>\$ 106,919</u> | <u>\$ (287,730)</u> |
| 4 | <u>Depreciation Expense</u> | | |
| | To decrease depreciation expense on a going-level basis using the most current depreciation study rates. | \$ 786,972 | \$ (1,162,453) |
| | <u>Total Depreciation Expense</u> | <u>\$ 786,972</u> | <u>\$ (1,162,453)</u> |
| 5 | <u>General Taxes</u> | | |
| a. | To increase property taxes on a going-level basis. | \$ 77,997 | \$ 77,997 |
| b. | To decrease payroll tax expense. | (94,000) | (85,159) |
| c. | To decrease franchise taxes (rate of .3%) and gross receipts tax (rate of .19221%) for the adjustment made to decrease revenues on a going-level basis. | 0 | (30,331) |
| | <u>Total General Taxes</u> | <u>\$ (16,003)</u> | <u>\$ (37,493)</u> |
| 6 | <u>State Income Taxes</u> | | |
| | To adjust state income taxes (rate of 5%) to reflect the impact on income of accounting and pro forma adjustments. | \$ (114,359) | \$ 4,134 |
| | <u>Total State Income Taxes</u> | <u>\$ (114,359)</u> | <u>\$ 4,134</u> |
| 7 | <u>Federal Income Taxes</u> | | |
| | To adjust federal income taxes (rate of 35%) to reflect the impact on income of accounting and pro forma adjustments. | \$ 1,538,296 | \$ 2,326,275 |
| | <u>Total Federal Income Taxes</u> | <u>\$ 1,538,296</u> | <u>\$ 2,326,275</u> |

Settlement Schedule 2

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2011
Docket No. 2011-7-G

| <u>Line No.</u> | <u>Description</u> | <u>Per Piedmont</u> | <u>Per ORS</u> |
|-----------------|--|---------------------|-----------------------|
| 8 | <u>Customer Growth</u> | | |
| | To adjust net operating income to reflect an anticipated increase in customer growth (rate of .091%) following the adjustments to operating revenues and expenses. | \$ 804 | \$ 2,318 |
| | <u>Total Customer Growth</u> | <u>\$ 804</u> | <u>\$ 2,318</u> |
| 9 | <u>Cash Working Capital</u> | | |
| | To decrease cash working capital following the pro forma adjustments to operation and maintenance expenses (rate of 12.5%) as reflected in the Original Filing. | \$ (17,616) | \$ (66,947) |
| | <u>Total Cash Working Capital</u> | <u>\$ (17,616)</u> | <u>\$ (66,947)</u> |
| 10 | <u>Operating Revenues - Sale and Transportation of Gas</u> | | |
| | To decrease revenues from the sale and transportation of gas for the proposed margin decrease. ORS has recalculated this adjustment utilizing all ORS adjustments to operating revenues. | \$ 1,736,739 | \$ (3,145,000) |
| | <u>Total Operating Revenues - Sale and Transportation of Gas</u> | <u>\$ 1,736,739</u> | <u>\$ (3,145,000)</u> |
| 11 | <u>Operations and Maintenance Expenses</u> | | |
| a. | To adjust the provision for uncollectible accounts (.28829%) for the proposed margin decrease. | \$ 5,007 | \$ (9,067) |
| b. | To increase the utility license fee (rate of .3%) following the adjustment to operating revenues. | 3,247 | 0 |
| | <u>Total Operations and Maintenance Expenses</u> | <u>\$ 8,254</u> | <u>\$ (9,067)</u> |
| 12 | <u>General Taxes</u> | | |
| | To adjust franchise taxes (rate of .3%) and gross receipts tax (rate of .192213%) for the proposed margin decrease. | \$ 5,185 | \$ (15,480) |
| | <u>Total General Taxes</u> | <u>\$ 5,185</u> | <u>\$ (15,480)</u> |

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2011
Docket No. 2011-7-G

| <u>Line No.</u> | <u>Description</u> | <u>Per Piedmont</u> | <u>Per ORS</u> |
|-----------------|--|---------------------|-----------------------|
| 13 | <u>State Income Taxes</u> | | |
| | To adjust state income taxes (rate of 5%) to reflect the impact on income from the proposed margin decrease. | \$ 86,165 | \$ (156,022) |
| | <u>Total State Income Taxes</u> | \$ 86,165 | \$ (156,022) |
| 14 | <u>Federal Income Taxes</u> | | |
| | To adjust federal income taxes (rate of 35%) to reflect the impact on income from the proposed margin decrease. | \$ 572,997 | \$ (1,037,551) |
| | <u>Total Federal Income Taxes</u> | \$ 572,997 | \$ (1,037,551) |
| 15 | <u>Customer Growth</u> | | |
| | To adjust net operating income to reflect an anticipated increase in customer growth (rate of .091%) following the proposed margin decrease. | \$ 965 | \$ (1,753) |
| | <u>Total Customer Growth</u> | \$ 965 | \$ (1,753) |
| 16 | <u>Operating Revenues - Sale and Transportation of Gas</u> | | |
| | To increase the revenue requirement for the sale and transportation of gas associated with demand cost under-recovery. | \$ 40,732 | \$ 40,737 |
| | <u>Total Operating Revenues - Sale and Transportation of Gas</u> | \$ 40,732 | \$ 40,737 |
| 17 | <u>Cost of Gas</u> | | |
| a. | To increase cost of gas for the demand cost under-recovery using a demand cost allocation factor of 16.01%, based upon the most recent design day study. | \$ 40,419 | \$ 40,419 |
| | <u>Total Cost of Gas</u> | \$ 40,419 | \$ 40,419 |

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2011
Docket No. 2011-7-G

| <u>Line No.</u> | <u>Description</u> | <u>Per Piedmont</u> | <u>Per ORS</u> |
|---------------------|--|-------------------------|----------------------|
| 18 | <u>Operations and Maintenance Expenses</u> | | |
| a. | To increase the provision for uncollectible accounts (rate of .28829%) following the adjustment for demand cost under-recovery. | \$ 117 | \$ 117 |
| b. | To increase the franchise taxes (rate of .3%) following the adjustment to revenue for demand cost under-recovery. | 76 | 0 |
| | <u>Total Operations and Maintenance Expenses</u> | <u>\$ 193</u> | <u>\$ 117</u> |
| 19 | <u>General Taxes</u> | | |
| | To increase the franchise taxes (rate of .3%) and gross receipts tax (rate of .19221%) for the adjustment to revenue for demand cost under-recovery. | \$ 121 | \$ 201 |
| | <u>Total General Taxes</u> | <u>\$ 121</u> | <u>\$ 201</u> |

Settlement Schedule 3

| Description | Capital Structure | Regulatory Per Books | | | | As Adjusted | | | | After Proposed Increase | | | | |
|----------------|-------------------|----------------------|-------------|----------------------|---------------------|-------------------|-------------|----------------------|---------------------|-------------------------|-------------|----------------------|---------------------|----------------------|
| | | Ratio | Rate Base | Embedded Cost/Return | Overall Cost/Return | Income For Return | Rate Base | Embedded Cost/Return | Overall Cost/Return | Income For Return | Rate Base | Embedded Cost/Return | Overall Cost/Return | Net Operating Income |
| Long-Term Debt | 665,452,750 | 38.99% | 75,017,459 | 5.90% | 2.30% | 4,426,030 | 74,991,356 | 5.90% | 2.30% | 4,424,490 | 74,991,356 | 5.90% | 2.30% | 4,424,490 |
| Common Equity | 1,041,211,503 | 61.01% | 117,384,333 | 10.94% | 6.67% | 12,839,070 | 117,343,489 | 12.94% | 7.90% | 15,188,527 | 117,343,489 | 11.30% | 6.89% | 13,259,894 |
| Total | 1,706,664,253 | 100.00% | 192,401,792 | | 8.97% | 17,265,100 | 192,334,845 | | 10.20% | 19,613,017 | 192,334,845 | | 9.19% | 17,684,384 |

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2011-7-G

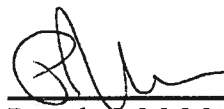
IN RE: Application of Piedmont Natural Gas
 Company, Incorporated to Have the Terms of)
 the Natural Gas Rate Stabilization Act Apply) **CERTIFICATE OF**
 to the Company's Rates and Charges for Gas) **SERVICE**
 Distribution Services)

This is to certify that I, Pamela J. McMullan, have this date served one (1) copy of the **SETTLEMENT AGREEMENT** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

James H. Jeffries, IV, Esquire
Scott M. Tyler, Esquire
Moore & Van Allen, PLLC
100 North Tryon Street, Suite 4700
Charlotte, NC, 28202

Jeremy C. Hodges, Esquire
Nelson Mullins Riley & Scarborough, LLP
Post Office Box 11070
Columbia, SC, 29201

Jane Lewis-Raymond, Esquire
Piedmont Natural Gas Company, Incorporated
Post Office Box 33068
Charlotte, NC, 28233



Pamela J. McMullan

August 31, 2011
Columbia, South Carolina